

## OIL AND GAS LEASE

**THIS OIL AND GAS LEASE** (hereinafter called the "Lease") is executed by the parties hereto on the dates shown in their respective acknowledgments hereinbelow, to be effective for all purposes, however, as of Nov 13, 2007, 2007 (hereinafter called the "Effective Date"). This Lease is made and entered by and between Constance D. Colonnese having a mailing address for all purposes hereunder of 3530 Baldwin Road, Cato, NY 13033, hereinafter called LESSOR, and SENECA RESOURCES CORPORATION, a New York corporation, having an office at 60 Earhart Drive, Suite 1, Williamsville, New York 14221, hereinafter called LESSEE:

WITNESSETH, that LESSOR, for and in consideration of the covenants and agreements herein contained on the part of LESSEE, to be paid, kept and performed, the receipt and sufficiency of which is hereby acknowledged, has granted, demised, leased and let, and by these presents does hereby grant, demise, lease and let unto LESSEE, its successors and assigns, for its exclusive use and possession, for the purposes of (1) mining, exploring for (including geophysical exploration activities), producing, treating, drilling for and operating for oil and gas, (2) storing gas in any underlying strata of the premises and withdrawing therefrom gas, whether or not originally produced from other lands, and (3) constructing, operating, using, maintaining and removing on or from the premises wells, pipelines, tanks, stations, roads, cathodic protection devices, water (except from LESSOR's wells), oil and gas necessary for construction and operations, and other supplies, devices, structures, equipment and facilities that are now or may in the future be necessary for or convenient in producing, withdrawing, storing and transporting oil and gas, all that tract or parcel of land described as follows:

Town or Township:	Ira	County:	Cayuga	State:	NY
Tax Parcel No.	29-1-39.111	Deed Book/Liber:	923	Page:	100
					Acres (more or less): 26.40
Tax Parcel No.	29-1-39.121	Deed Book/Liber:	781	Page:	117
					Acres (more or less): 23.58

(recording reference are to the deed or other official real property records of the county shown); containing for the purpose of calculating rentals and royalties, the number of acres shown above, whether actually containing more or less. In addition to the above described land, any and all strips, gores, strings or parcels of land adjoining or contiguous to the above described land and owned or claimed by LESSOR are hereby leased to LESSEE. All tracts or parcels of land leased to LESSEE herein, including strata and horizons underneath the surface thereof, are herein referred to as "the premises." For purposes of this Lease, oil and gas includes all hydrocarbons and other substances produced or associated therewith.

It is agreed that this Lease shall remain in full force and effect until midnight on the Fifth(5<sup>th</sup>) anniversary of the Effective Date hereof (the primary term) and as long thereafter as (1) drilling operations continue with due diligence, provided that LESSEE has commenced drilling operations on any portion of the premises or any lands pooled or unitized therewith, within the primary term, (2) an application for a drilling permit is pending with the appropriate authorities, and LESSEE, after grant of such permit, commences drilling operations within a reasonable time thereafter and continues same with due diligence, provided said permit application was filed prior to the expiration of the primary term, (3) oil and gas or either of them is produced or withdrawn from any portion of the premises or any lands pooled or unitized therewith, (4) gas storage operations are conducted in or on any portion of the premises, or (5) a completed oil or gas well would be capable of producing oil or gas from any portion of the premises or any lands pooled or unitized therewith, but for acts of God, unavailability or interruption of markets or pipelines, or any other causes, which have caused LESSEE not to commence production from such well or to suspend production from such well.

## IN CONSIDERATION OF THE PREMISES:

## A. The LESSEE covenants and agrees as follows:

1<sup>st</sup> - To complete a well on the premises within three months of the date hereof or pay to LESSOR on or before such three month anniversary and annually thereafter the sum of Five and No/100 dollars (\$5.00) per net mineral acre leased for each twelve (12) months for which completion of a well is delayed (such payment may be hereinafter referred to as a delay rental); and it is agreed that completion of a well shall be a full liquidation of all delay rental under this provision during the remainder of the term of this Lease.

BK 1340 PG 253

2<sup>nd</sup> - To pay to LESSOR the greater of (1) a royalty of one-eighth (1/8) of eight-eighths (8/8) of the gross proceeds (less all applicable excise taxes, including production, severance and windfall profits taxes, and less transportation, compression, dehydration, processing, treatment and gathering costs, if any) realized from the sale of gas produced or withdrawn from those strata or horizons of the premises not used for storage of gas, and from the sale of oil produced or withdrawn from the premises, which gas and oil is sold and used off the premises, or (2) with respect to gas only, a minimum royalty of two hundred dollars (\$200.00) annually per gas well, for the period beginning on the date of completion of said gas well; and it is agreed that the plugging and abandoning of a well shall be a full liquidation of all royalty with respect to such well during the remainder of the term of the Lease.

3<sup>rd</sup> - To pay to LESSOR an annual storage rental of \$2.00 per acre for the utilization of one or more strata in the premises for storage operations, for so long as any stratum is so utilized, and to give to LESSOR written notice of the use of the premises for storage operations; and it is agreed that said storage rental is in lieu of delay rental and royalty payments, except that storage rental and royalty payments shall be paid simultaneously by LESSEE if LESSEE simultaneously conducts storage operations in one or more strata in the premises and produces oil or gas from one or more other strata; and it is further agreed that the termination of gas storage operations shall be a full liquidation of all storage rental during the remainder of the term of this Lease.

4<sup>th</sup> - To correct any damages LESSEE may cause to crops, fences or structures as a result of its operations, and to restore, as much as possible, all surface used by LESSEE to its condition existing prior to drilling, or, at LESSEE's option, to pay to LESSOR reasonable damages, provided that LESSEE has received written notice from LESSOR specifying the damages.

5<sup>th</sup> - To drill no well within two hundred (200) feet of any dwelling or barn now on the premises without the written consent of the LESSOR.

**B. The LESSOR covenants and agrees as follows:**

1<sup>st</sup> - To erect no dwelling or barn within two hundred (200) feet of any producing well drilled on the premises or any acreage pooled or unitized therewith, or within fifty (50) feet of any pipeline, without the written consent of the LESSEE.

2<sup>nd</sup> - That LESSOR has full title to the premises and to all the oil and gas therein at the time of granting this Lease, and forever warrants title to the leasehold estate hereby conveyed to LESSEE, that LESSEE shall have exclusive, full and quiet possession of the premises for the purposes set forth herein, and that LESSOR shall not interfere in the operations of LESSEE hereunder.

**C. It is mutually agreed by and between LESSOR and LESSEE as follows:**

1<sup>st</sup> - LESSEE shall have the right at any time to redeem for LESSOR, or otherwise acquire for payment, any mortgage or any other liens or encumbrances upon the premises that may in any manner affect the LESSEE's interest therein, and LESSEE shall be subrogated in full to all the rights of the holder thereof the same as if LESSEE were the original owner of said mortgage, lien or encumbrance, and LESSEE may reimburse itself by applying to the discharge of any such mortgage, lien or other encumbrance any royalty or rental owed or accruing hereunder.

2<sup>nd</sup> - LESSEE shall have the exclusive right to employ all or any of the oil or gas strata in the premises for the storage of gas, and may reopen and reclaim any and all abandoned wells on the premises that may have penetrated said strata, or drill new wells on the premises, for the purpose of freely introducing and storing gas in such strata and recovering gas therefrom. A well need not be drilled, reopened or reclaimed on the premises in order for gas to be stored in the premises. LESSEE shall be the sole judge as to whether gas is being stored in the premises, and its determination shall be final and conclusive. Storage of gas hereunder shall not diminish any of LESSEE's other rights under this Lease.

3<sup>rd</sup> - If LESSOR owns less than all of the oil and gas rights in the premises, LESSOR shall be entitled to only a share of the rentals, royalties or any other forms of compensation due under the terms of this Lease equivalent to the proportion of such oil and gas rights owned by LESSOR. If LESSOR owns less than all of the storage rights in the premises, LESSOR shall be entitled to a proportionate share of storage rentals equivalent to the proportion of such storage rights owned by LESSOR. Unless deeds of conveyance or other instruments of record otherwise provide, storage rentals shall be apportioned equally between ownership of the surface of the premises and ownership of the gas rights therein. If LESSEE makes rental or royalty payments to LESSOR in excess of LESSOR's entitlement thereto, LESSOR shall refund to LESSEE such part of all such payments made by LESSEE under this Lease as shall be proportionate to the title not held by

BK1340 PG254

LESSOR, and LESSEE may reduce subsequent payments in the same proportion. If LESSOR does not timely provide such refund, LESSEE may also reduce payments to LESSOR by the amount that should have been refunded.

4<sup>th</sup> - In case of a conveyance or reservation of all or a part of or an undivided interest in the premises, LESSEE shall apportion all entitlements or benefits under the Lease according to interest, acreage, or the terms of the conveyance as the case may be (except as provided in 5<sup>th</sup> hereof). Notwithstanding the above, LESSEE may continue to pay or provide all such entitlements or benefits to LESSOR until furnished with the original or a certified copy of the deed of conveyance or other documents or proof of conveyance, so that LESSEE may identify the land or interests conveyed as being all or part of the premises. In case of notice of any adverse claim to the premises or any portion thereof or interest therein, whether or not in connection with a conveyance, LESSEE may withhold any or all entitlements or benefits under this Lease until such claims, and the entitlements and benefits are, in LESSEE's sole discretion, decided by compromise, or by final decree of a court of competent jurisdiction, and to this end LESSEE may file a petition for interpleader.

5<sup>th</sup> - LESSOR hereby excepts and reserves from any one gas-producing well on the premises completed and operated by LESSEE (excepting wells utilized for storage), for so long as gas is capable of being produced from such well, a quantity of gas in the amount of two hundred thousand (200,000) cubic feet of gas per year. Notwithstanding the foregoing, LESSOR hereby permanently waives any right to obtain such reserved gas through a taking in-kind. In consideration of LESSOR's waiver of said right, Lessee agrees to honor the reserved gas obligation by paying to LESSOR the cash equivalency for such gas at the average wellhead price received by LESSEE for the preceding production year. Said price shall be based on seven-eighths (7/8) of the gross proceeds realized from the sale of gas produced from the lease premises (less all applicable excise taxes, including production, severance and windfall profits taxes, and less transportation, compression, dehydration, processing, treatment and gathering costs and any other costs necessary or incidental to the marketing of said gas). Lessee shall make one (1) payment annually for the value of said reserved gas, the timing of such which will be made in such a manner that allows the price computation to be made based upon the average monthly price of gas for the previous calendar year's production of gas from the lease premises, or if such price information is not available from the lease premises then the computation shall be made using the average monthly price of LESSEE's production in the closest proximity to the lease premises. This payment shall be made to LESSOR for so long as there is a gas well capable of production on the lease premises, and shall be made regardless of whether or not there is a dwelling on the lease premises. If LESSOR conveys a portion of its interest in the premises, LESSOR may convey its entitlement to the cash equivalency for the reserved gas as part of such conveyance, but may not subdivide such entitlement. If the premises are pooled or unitized with other lands, the cash equivalent entitlement for reserved gas, herein referred to, shall extend only to the LESSOR upon whose property the well is physically located.

6<sup>th</sup> - LESSEE shall at any time, upon payment of all monies due hereunder up to such time, have the right to surrender this Lease as to all or part of the premises, and shall thereupon be released and discharged from all payments, obligations, terms, conditions and covenants contained herein, whereupon this Lease shall be null and void as to the entire premises or the part thereof as to which this surrender was made, and rental and royalty payments shall cease or be reduced accordingly. Notwithstanding the above, LESSEE shall still have the right to continue to use any pipeline and/or road rights of way herein granted upon a single payment to LESSOR of one dollar (\$1.00) per foot for each foot of road or pipeline.

7<sup>th</sup> - LESSEE is hereby granted the right to pool or unitize all or any part of the premises with any other leases, lands, mineral estates, or any of them whether owned by the LESSEE or others, so as to create one or more drilling or production units. Such units shall not exceed six hundred forty (640) acres in extent. LESSEE shall record a copy of the unit operation designation in the county in which the premises are located, and mail a copy thereof to LESSOR. In order to give effect to the known limits of the oil and gas pool, as such limits may be determined from available geological or scientific information or drilling operations, LESSEE may at any time increase or decrease that portion of the premises that is included in any drilling or production unit, or exclude it altogether, provided that written notice thereof shall be given to LESSOR. As to each such unit, LESSOR agrees to accept, in lieu of the royalty herein described, such proportion of such royalty as the acreage in the premises in such unit bears to the total acreage included in such unit. The commencement, drilling, completion of or production from a well on any portion of a unit including all or some of the premises shall have the same effect upon the terms and conditions of this Lease as if a well were commenced, drilled, completed or producing on the premises.

8<sup>th</sup> - All expressed or implied covenants of this Lease shall be subject to all federal, state and local laws, orders, rules and regulations. If LESSEE is unable to fulfill any covenant hereunder because of such laws, orders, rules or regulations, acts of God (such as natural disasters), wars, civil disturbances, insurrections, riots, epidemics, equipment or pipeline breakdown or freeze-up, or similar causes not reasonably within the control of LESSEE, for such time as such situation

exists, the term of this Lease shall be extended for an equal period of time, and LESSEE's obligation to fulfill its covenants under this Lease shall be suspended for such period of time.

9<sup>th</sup> – This Lease may be executed in counterparts each having the same validity as the original. Should any one or more of the parties named as LESSOR or owning a mineral interest in the premises fail to execute this Lease, it nevertheless shall be binding upon all such parties who do execute it as LESSOR.

10<sup>th</sup> – LESSEE shall have the right to assign this Lease or any interest therein, and the assignee of LESSEE shall have corresponding rights, privileges and obligations with respect thereto. All terms, conditions and covenants between the parties hereto shall extend to their respective heirs, successors, personal representatives and assigns. If LESSEE assigns this Lease or any interest therein, LESSOR will look solely to assignee for fulfillment of all obligations of the Lease or of the interest assigned, as the case may be. Representations other than those contained herein shall not be binding on either party.

11<sup>th</sup> – LESSEE's exercise of any right or entitlement granted under this Lease shall continue this Lease in full force and effect as to all rights and entitlements granted herein, and each right and entitlement granted herein may be exercised by LESSEE simultaneously with its exercise of one or more other rights and entitlements, or singly, on a continuing basis.

12<sup>th</sup> – Attached hereto and incorporated herein for all purposes is an Addendum setting forth additional terms and provisions to which LESSOR and LESSEE hereby expressly agree.

The following applies only in the State of New York:

**IF THIS LEASE BECOMES FORFEITED, TERMINATED OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELLING THE LEASE AS OF RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATIONS LAW.**

**THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELLED THIS CONTRACT. IN ORDER TO CANCEL THE LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.**

**NOTICE OF CANCELLATION  
I/WE HEREBY CANCEL THIS LEASE.**

**SIGNATURE(S):** \_\_\_\_\_  
**DATED:** \_\_\_\_\_

**THE PERSON PRESENTING THIS LEASE TO YOU IS AN EMPLOYEE OF NATURAL RESOURCES MANAGEMENT, WHICH THROUGH THE AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN (AAPL) IS SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU I SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONAFIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE**

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DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD, OTHERWISE THE LEASE SHALL BE CANCELLED.

IN WITNESS WHEREOF, LESSOR and LESSEE have duly executed this Oil and Gas Lease on the dates shown in their respective acknowledgments hereinbelow, to be effective for all purposes, however, as of the Effective Date set forth hereinabove.

**LESSOR(S):**  
Constance D. Colonnese  
Printed Name: Constance D. Colonnese

**LESSEE: SENECA RESOURCES CORPORATION**  
By: [Signature]  
Printed Name: Dale Rowekamp  
Title: General Manager, East Division NYC

\_\_\_\_\_  
Printed Name: \_\_\_\_\_

\_\_\_\_\_  
Printed Name: \_\_\_\_\_

**WITNESS:**  
\_\_\_\_\_  
Printed Name: \_\_\_\_\_

[ACKNOWLEDGMENTS ON FOLLOWING PAGE]

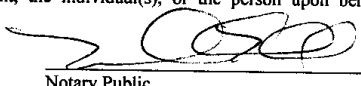
ACKNOWLEDGMENTSTATE OF New York )

SS:

COUNTY OF Onondaga )

On the 13 day of November, 2007, before me the undersigned, personally appeared Constance D. Colonnese, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

MARK C. KULIK  
 NOTARY PUBLIC IN THE STATE OF NEW YORK  
 QUALIFIED IN ONONDAGA CO. NO. 01KU5061349  
 MY COMMISSION EXPIRES JUNE 3, 2006 2010

  
 Notary Public


ACKNOWLEDGMENT - [NY]

STATE OF NEW YORK }

} SS:

COUNTY OF ERIE }

On the 17<sup>th</sup> day of December in the year 2007 before me, the undersigned, a Notary Public in and for said State, personally appeared Dale A. Rowekamp, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

  
 Notary Public

MICHAEL J. COLMERAUER  
 Notary Public, State of New York  
 Qualified in Erie County

My Commission Expires 2-16-10

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## ADDENDUM

Attached to and made a part of that certain Oil and Gas Lease dated November 13, 2007, by and between Constance D. Colonnese, as Lessor, and Seneca Resources Corporation, a Pennsylvania corporation, as Lessee.

1. It is agreed that with respect to any damages resulting from LESSEE's operations, LESSEE shall repair and restore the surface of the the premises as nearly as possible to the condition in which said land existed at the time of the commencement of drilling operations on the premises. The restoration work shall be done at the sole expense of LESSEE. It is understood and agreed that LESSEE's obligations under this paragraph survive any termination of this Lease or any part thereof.
2. Lessor and Lessee shall mutually consent to all well locations, road locations and pipeline locations.
3. Notwithstanding anything to the contrary in the Lease, LESSOR shall not be responsible for and LESSEE shall defend, indemnify and hold harmless LESSOR and its heirs, successors and assigns (collectively, the "Indemnitees") against any and all claims, damages, losses and expenses for bodily injury, property damage or financial loss ("Claims") arising out of LESSEE's acts or omissions, except to the extent a Claim arises out of an Indemnatee's gross negligence or willful misconduct. This provision shall survive any termination of this Lease or any part thereof.
4. LESSOR shall be compensated at the fair market value for any trees, crops, fences, fixtures or structures damaged and/or removed from the leased premises by LESSEE.

**LESSOR'S INITIALS:**

CC

**LESSEE'S INITIALS:**

DR

BK1340 PG259